

Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



2014 Proposed Legislation

January 15th was the opening day of the 2014 Legislative Session. This is the second year of the 2013-2014 legislative biennium and the session is expected to close on May 1st. There were two bills introduced by the administration for this session that were related to the Employees' Retirement System (ERS). To date, only H.B. 2264 and S.B. 2813 are still active which pertains to the holding period for real estate investments. Summaries of the bills are noted below. For more information on these and other legislation you may visit the State Capitol website at www.capitol.hawaii.gov.

H.B. 2264 and S.B. 2813: Relating to the Investment Authority of the Employees' Retirement System

The purpose of this bill is to repeal the limitation on the holding period for real estate acquired by the ERS by foreclosure, enforcement of security or in satisfaction of debts so that the real estate may be held and disposed of like any other investment in real property.

There is currently a limitation on the holding period for real estate acquired by the ERS through foreclosure, enforcement of security, or in satisfaction of debts that predates the enactment of legislation authorizing the ERS to invest in real estate. In order to prudently manage the ERS's real estate portfolio, the Board of Trustees of the ERS needs to be able to evaluate and plan for the retention or disposition of the real estate without distinction as to how the real estate was acquired. The limitation on the holding period for real estate acquired through foreclosure, enforcement of security or satisfaction of debts prevents the Board of Trustees of the ERS from making long-range plans for the affected property, which are necessary for the prudent management of the real estate investment portfolio.

The companion bills below are no longer active for this session as they were not heard by their required committees.

H.B. 2263 and S.B. 2812: Relating to the Employees' Retirement System

The purpose of this proposal is to improve the funded status of the ERS and to reduce public employer contributions by changing the formula used to credit unused sick leave toward retirement benefits for public employees who become members of the ERS after June 30, 2014. This bill will reduce by one-half the amount of retirement service credited for accumulated unused sick leave (40 days for one month of service credit) for public employees.

Currently, members of the ERS who retire or leave public service with sixty or more days of accumulated unused sick leave may receive additional service credit for retirement purposes. These members receive additional retirement benefits because of the additional service credit, but do not make any contributions for the additional retirement benefits. The additional costs of providing retirement benefits based on accumulated unused sick leave are borne by the ERS and, ultimately, by the public employers.

In addition to the above, also being heard this session are proposals regarding the forfeiture of retirement benefits for members of the ERS convicted of employment-related felonies and regarding employer reporting of personnel and payroll data to the ERS.

Results of these proposals shall be covered in our June 2014 *Holomua*. Until then, you may follow these bills online at the State Capitol website noted above or by accessing the ERS website at <http://ers.ehawaii.gov>.

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Wes' Corner



We are well into 2014 and investment returns are positive for the first two quarters (and part of the third quarter) of the 2014 fiscal year. If it continues, this positive return should help with our large unfunded liability that stood at \$8.49 billion as of June 30, 2013. While legislation has been enacted over the past three years to assist with the ERS' funding, we still have a long way to go before the ERS is sustainable.

The ERS has a funded ratio of 60%, which shows a slight improvement from the steady decline over the past 6 years. This means that we have less than 2/3 of what we need in the fund for the anticipated pension payouts for all members who retire. Even though we don't need 100% of our funds today, it is important that we have most of it before everyone retires. Thus, all assumptions and variables affecting the ERS' funding must be regularly monitored, and changes or solutions may be required to ensure the sustainability of the ERS. The ERS Board of Trustees is doing everything possible to ensure that the ERS is around forever. It is imperative that we protect all current members' and retirees' accrued benefits, even if changes have to be made for future members. We just don't want to be in Detroit's situation, in which there is uncertainty about whether or not retirees will be paid their entire pensions.

After a few years of stability, the ERS membership is growing again. There were over 115,000 individuals that we serviced as of June 30, 2013, including 41,812 retirees and beneficiaries. As of this newsletter, we now have over 43,000 retirees to whom we pay monthly and semi-monthly pensions amounting to about \$1.1 billion annually. There

are over 66,000 active members who will hopefully retire someday with pensions from the ERS. The average age and years of service of these members in 2013 was almost 48 years of age and 13.5 years of service. The average age of retirement for most members is around 60 years of age.

We will continue to find ways of improving our service to you, and in the meantime, we wish you good health and happiness through the remainder of 2014.

Take care and Aloha,

Wes Machida

2014 Brown Bag Sessions – Tips & Tools to Help You Plan Your Retirement

ERS conducted its first set of monthly Brown Bag workshops in the past 3 months and received positive feedback from initial attendees. Members said that the information helped them to start developing a plan for retirement. Many members realized they did not know their own ERS membership plan!

These workshops were conducted during the lunch hour for new and mid-career Oahu employees. Our neighbor island offices have their 2014 Informational Workshop schedule posted on our website.

The purpose of these workshops is to reach out to members who are not yet near retirement and to provide them with retirement information they should know about now so they can plan for their future.

These workshops will give you an opportunity to get answers to all your ERS questions as well as to provide information on the use of our website at <http://ers.ehawaii.gov> that can help you understand and prepare your own retirement estimates. Our next scheduled sessions are:

Date	Time	Location
April 17	12:15 pm to 12:45 pm	ERS – City Financial Tower Suite 1200 (12th floor)
May 22		
June 26		

To register, please call our office at 586-1735 at least one week prior to the scheduled workshop. Each session is limited to thirty-five members. Feel free to bring your lunch, too. Limited validated parking is available in our building.

Online Service Update Offers Opportunity to make sure your information is accurate

The online information available on our website for the Hybrid, Contributory and Noncontributory plan retirement accounts will be updated in April 2014.

At this site, you will view a "snapshot" of your retirement account information in your retirement plan, retirement contribution account balance for the Contributory or Hybrid plan members, and total credited years of service as of a specific date.

For those that haven't visited our website, you can go to <http://ers.ehawaii.gov> and go to "Login to Self Service" to view your information. Enter your last name, date of birth, and the last 4 digits of your Social Security Number.

If there is any discrepancy with your retirement account information, click on the link to the Correction Form and mail it to ERS with a copy of your "My Retirement Account" screen print. Upon completing our research, your information will be updated. Our research may involve obtaining information from your current and previous departments to correct and/or clarify your personnel and payroll transactions. We appreciate your patience as we verify the necessary information.

We encourage you to visit our online service as your assistance is needed to ensure your record is accurate. As a member of a defined benefit plan, your retirement eligibility and pension are based on your years of creditable service and average salary which we receive from your employers. Therefore, accuracy of your service credit will help us avoid delays in determining your benefit eligibility and calculating your retirement pension when you retire.

Board of Trustees — Continuity and New Beginnings

December and January were transitional months for the Employees' Retirement System (ERS) Board of Trustees.

The Board welcomed a newly appointed member, Patrick Frane, on November 13, 2013. Mr. Frane is an Administrative Officer of the John A. Burns School of Medicine at the University of Hawaii. He has been with the University in various administrative officer positions since 1998 and is also the Treasurer and Chair of the Finance Committee of the HGEA Board of Directors, and serves as a Trustee for the HGEA Trust Fund. Mr. Frane possesses a strong academic background and broad work experience and will be a thoughtful voice to support an effective retirement program and represent the interests of the general membership. Mr. Frane's term will run through January 1, 2018.

On January 2, 2014, two elected Board positions were filled – an active member position and a retiree member position.

Jackie Ferguson-Miyamoto, who ran unopposed as a Member-Trustee, began her new term on the Board effective January 2, 2014. She has been employed with the Harbors Division of the Department of Transportation for over 30 years and is also an elected Board member of the HGEA. Ms. Ferguson-Miyamoto has been an ERS Trustee since January 2, 1996. She provides the Board and the membership with stability, continuity, historical knowledge and experience.

Also effective January 2, 2014, Emmet Kane began a new term as the Board's Retiree-Trustee. Mr. Kane retired last year as a Deputy Fire Chief of the Honolulu Fire Department. He had previously served on the ERS Board from January 11, 2012 through July 31, 2013 and during his tenure, he was a member of the Board's Administrative and Audit Committees. He also served as the Board's Chair prior to his retirement. Mr. Kane replaces Mr. Wayne Yamasaki who, after completing his six-year term as a Trustee, is now enjoying a well-deserved, more relaxing retirement.

As the ERS Board transitions through these changes in membership, its commitment to the ERS membership and the future of the Fund remains constant and unwavering.

And now you know

The following are three unfortunate situations that we would like to share with you in order to help you understand the requirements that impact certain pension or death benefits that you or your beneficiary may be entitled to receive.

Disability Applications (Mentally or physically incapacitated for further performance of duty)

After Mr. S retired on July 1, 2013, he filed for service connected disability (work related disability due to an accident) retirement on August 6, 2013. He understood that he could file his application "2 years after the date of the accident or 2 years after the worker's compensation payment or benefits cease, whichever is later." Although the requirements are accurate, we must clarify that only active members may file an application for service connected disability retirement, not a retiree. If he had filed his disability application before he retired, and if his application was approved, he could possibly receive a higher service connected disability pension on a tax free basis.

In another situation, Ms. B quit her job on January 31, 2014 as she was no longer able to do her work due to a disability. She was 56 years of age with 12 years of service. On February 12, 2014, she filed an application for ordinary (non-work related) disability retirement as she did not yet meet the age 62 requirement for service retirement under the Hybrid Plan. Unfortunately, however, Ms. B was ineligible to file for ordinary disability retirement. She had the required minimum of 10 years of service, but due to her termination, she was no longer actively employed, "in service" or on leave without pay (LWOP). Similar to the retiree above, Ms. B was not eligible to file a disability application.

In both scenarios, the ERS was not made aware of their situations and was not able to advise them of their disability retirement options prior to their decision to terminate or retire. Please note that these stories do not provide all disability requirements and we encourage you to visit or contact our office when considering disability retirement as an option.

Beneficiary Designation (for Contributory and Hybrid members only)

Mr. G was a Hybrid Plan member with 15 years of service and initially designated his spouse as his beneficiary in 2006. In 2007, Mr. G's marital status changed and although he intended to re-designate his ex-spouse so he could continue to take care of their children, he failed to do so. By law, any change in marital status "voids" the beneficiary designation and death payments go to the estate. At age 57, Mr. G passed away unexpectedly without making the change. As a result, all death benefits were paid to his estate.

If Mr. G had re-designated his ex-spouse as the primary beneficiary, she would have received a lifetime pension with possible medical coverage that would be determined by the Hawaii Employer – Union Benefits Trust Fund (EUTF).

As a reminder, please keep your beneficiary designation current. The Form 1-A "Contributory/Hybrid Plan Designation of Beneficiary" is located on our website. We encourage you to designate only a primary beneficiary because contingency beneficiary designations from our membership are not always complete and clear. You can always re-designate another primary beneficiary should the situation change. If you do not know who you designated as your beneficiary, you can call our office or just submit another Form 1-A.

We hope these stories prompt you to think about your own particular situation and find out more about your retirement plan and benefits.

If you have questions on situations that may affect your retirement benefits, feel free to call our office at (808) 586-1735 or visit our website at <http://ers.ehawaii.gov>.

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou.

We have just posted a very strong 2013 performance of 16.3%, outperforming the policy benchmark by 0.5% and the 7.75% expected rate of return by 8.55%. This is something to be very pleased about, but we need to understand this performance in terms of drivers of returns and sources of risk.

In the current portfolio there is a standing policy designed overweight to U.S. domestic stocks and a discretionary marginal underweight to fixed income. In other words, the relative strong performance of 2013 derived from a willingness to accept the riskiness of stocks over the relative safety of bonds. Additionally, the specific fund managers in US stocks and bonds also seemed to demonstrate talent by outperforming their respective benchmarks.

These positive results should be acknowledged and appreciated. But how important are they to the sustainability of the overall pension plan? Certainly, we prefer that it's 16.3% and not 1.3%, but rather than happening at the end of December, it would be better to happen at the end of June. June ends the ERS's fiscal year, and the health of the investment portfolio at fiscal year-end is what goes into the assumptions and calculations used to establish the plan's projected sustainability. Of course, this information is less than satisfying because what is to stop us from changing the fiscal year to December and locking-in the wonderful 16.3%? What if we just took the best of any given four quarters and used the result to calculate the pension's health?

What concerns this quarter's *Holomua* is the idea of thinking for the long-term. What is an appropriate interval to assess investment policy and performance that still encourages long-term thinking commensurate with the expected enduring obligations of the pension plan?

One of the great challenges of managing a portfolio that is meant to be around into perpetuity is to appreciate long-range thinking and planning. Many of us invest and save for a relatively short-term objective like buying a bag or paying the rent. Even individual planning to purchase a family home or personal retirement may involve planning ahead for 30 or 40 years. The pension investment professional is investing and structuring a vehicle meant to service multiple generations.

It's not enough to just check performance returns at 1-, 3-, 5-, and 10-year intervals. It's not practical to expect that monitoring investments every month, day, or hour will culminate in an efficient portfolio. Let's consider two ideas that help focus on the perpetual.

The first is Nietzsche's philosophical concept of the eternal return. Apologies to Nietzsche, but I will position the idea to mean, "if something is worth doing again, it was worth doing in the first place." I am taking great liberties here, but if we cannot manage the results 30 years from now of an investment decision made today, we should manage the decision-making process that we can control now. If, knowing what we know today, we would make the same investments again and again, regardless of the range of outcomes, then it was the right thing to do in the first place.

A more accessible concept is that of "cathedral" building. In medieval Europe the decision to erect a cathedral was often made by a village, knowing that the edifice might not be finished in a single generation. The faith to do today what would touch the face of eternity tomorrow was a powerful motivator. Constructing an investment portfolio today, we must think that its construction is never completed, and that it is constantly being built for the next generation.

The portfolio we have today must be seen as having a logic and purpose that the previous generation built. In fact, there are several investments that go back to the 1970s and 1980s that have performed admirably. At the same time, we continue to build toward the future, and changes made in the past couple of years have been the major driver of the \$2 billion plus increase of portfolio assets over that time. As portfolio construction and management continue to evolve, we must construct what, given what we understand today, will sustain the investment portfolio for the next generation.

Let me conclude with the Buddhist paradigm of living in the present moment. For the Buddhist, the happiest place to live is in the present (between the past and future); the concept does not preclude planning for the future, but challenges us to be fully aware of the present condition. Therefore, we must totally enjoy the returns we are now experiencing, but be fully aware that the hard lifting of cathedral building lies ahead. If we had to do 2013 again, we most certainly would.

News from the EUTF

News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

The Open Enrollment period for EUTF Active Employee Health and Life insurance plans will be from April 7, 2014 through May 2, 2014.

Here are other important dates:

- New coverage becomes effective: July 1, 2014
- Rates change effective: July 1, 2014
- Plan Period: July 1, 2014 through June 30, 2015

There are some significant changes being made to plans starting July 1, 2014. You are encouraged to read the EUTF Reference Guide for Active Employee Benefit Plans effective July 1, 2014 through June 30, 2015 carefully, which will be posted on the EUTF website April 4, 2014 at eutf.hawaii.gov. You may also want to attend an open enrollment informational session. Dates, times and locations are listed below:

Date	Location	Room	Time
Apr 7	Windward	Windward Community College - Hale Akoakoa Room 103 & 105	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 8	Maui	Maui War Memorial Gym	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 9	Honolulu	Hawaii State Capitol - Auditorium	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 10	Honolulu	Aloha Stadium - Hospitality Room	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 11	Hilo	Aunty Sally Kaleohano's Luau Hale	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 14	Kapolei	UH West Oahu - Multi Purpose Room C208	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 15	Honolulu	Hawaii State Capitol - Auditorium	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 16	Kona	***West Hawaii Civic Center - Community Meeting Hale, Bldg G	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 17	Kauai	Kauai War Memorial Convention Hall	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 21	Honolulu	Hawaii State Capitol - Auditorium	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 22	Honolulu	Aloha Stadium - Hospitality Room	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 23	Molokai	Maunaloa Elementary School - Cafeteria	1p-2:30p, 3p-4:30p
Apr 24	Honolulu	Mission Memorial - Auditorium	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 25	Kapolei	***UH West Oahu - Room C225	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 28	Hilo	Aunty Sally Kaleohano's Luau Hale	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 29	Maui	Maui War Memorial Gym	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
Apr 30	Honolulu	UH Manoa - Kuykendall Auditorium	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
May 1	Kauai	Kauai War Memorial Convention Hall	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p
May 2	Pearl City	***Leeward Community College - Room GT105	8:30a-10a, 10:30a-12p, 1p-2:30p, 3p-4:30p

*** Seating is limited and available on a first-come basis.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.



Employees' Retirement System

of the State of Hawaii

Working to fulfill your retirement dreams...

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Scan the QR code with your smartphone
to directly access the ERS website.

Holomua

Active Members

January/February/March 2014

Ask ERS

Answers to some frequently asked questions:

Q: You just had an article on keeping beneficiary designations up to date. As an active Noncontributory plan member, should I have designated a beneficiary?

A: No. Active Noncontributory plan members do not designate a beneficiary because it is set by law that the surviving spouse or reciprocal beneficiary and dependent children until age 18 will receive any active death benefits. Upon retirement, you will be required to designate a beneficiary for the retirement option that you select.

Q: As an active member (Hybrid or Contributory), am I able to name a trust as the beneficiary?

A: Yes. If you specify a trust, the exact name and date of the trust should be indicated. Please note, however, that a trust or even multiple beneficiaries are not entitled to receive a lifetime pension, if applicable.

Q: Does the Form 1-A "Contributory /Hybrid Plan Designation of Beneficiary" have to be notarized?

A: Yes. However, the notary certification is not required if you sign the form in the presence of an ERS representative at our Oahu or neighbor island offices.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644

Continental U.S. toll free to Oahu:
1-888-659-0708